



Argo Investments Limited

ABN 35 007 519 520

Appendix 4D

Half-year Report
for the period ended 31 December 2015
(previous corresponding period being
the half-year ended 31 December 2014)

**RESULTS FOR ANNOUNCEMENT TO THE MARKET
HALF-YEAR ENDED 31 DECEMBER 2015**

(Comparative figures being the half-year ended 31 December 2014)

				<u>\$A'000</u>
Revenue from operating activities	up	5.6%	to	118,959
Profit for the half-year	up	8.9%	to	114,216

Dividend

Interim fully franked dividend payable 4 March 2016
(previous corresponding period 14.0 cents fully franked) 15.0 cents

The Company's Dividend Reinvestment Plan will operate for this dividend. The Directors have resolved that the shares will be allotted at a 2% discount to the market price of Argo shares, which will be the volume-weighted average ex-dividend market price of the shares traded on the record date and the three business days following the record date.

The record date for determining entitlements to the interim dividend 15 February 2016
The election date for determining participation in the Dividend Reinvestment Plan 16 February 2016

Final fully franked dividend for year ended 30 June 2015 paid
2 September 2015 15.5 cents

Net Asset Backing

Net tangible asset backing per Argo share was \$7.28 as at 31 December 2015, compared with \$7.36 as at 31 December 2014.

As a long-term equity investor, Argo does not intend to dispose of its long-term investment portfolio. However, if estimated tax on unrealised portfolio gains was to be deducted, the net tangible asset backing per share would be \$6.47 as at 31 December 2015, compared with \$6.49 as at 31 December 2014.



Media Release

1 February 2015

Argo increases profit and raises interim dividend

Argo Investments Limited (ASX code: ARG), a major Australian listed investment company with approx. \$5.0 billion in assets, today announced a record first half profit of \$114.2 million and a 1.0 cent lift in the interim dividend to 15 cents per share fully franked, the third successive increase.

The half-year profit was 8.9% higher than the previous corresponding period, with earnings per share rising 7.6%.

The Company's portfolio outperformed the broader Australian share market over the calendar year, returning a total of +2.8%, compared with the S&P/ASX 200 Accumulation Index which returned +2.6% for the same period. The total return based on the share price performance was even stronger, at +7.0% for the year.

Summary of financial results

	<i>Half-year to 31.12.15</i>	<i>Half-year to 31.12.14</i>	<i>change</i>
Profit	\$114.2 million	\$104.8 million	+8.9%
Earnings per share	17.0 cents	15.8 cents	+7.6%
Interim dividend per share	15.0 cents	14.0 cents	+7.1%
Net tangible asset backing (NTA) per share	\$7.28	\$7.36	-1.1%

Argo's Managing Director, Mr Jason Beddow, said the profit growth was mostly due to higher dividends and distributions from the investments in the portfolio, with the increased market volatility assisting the Company's option writing income strategy. Income from option activity and trading opportunities was \$7.3m for the half-year, significantly above the \$2.1m earned in the previous corresponding period.

Mr Beddow also noted that Argo had commenced receiving management fee income, due to its management of Argo Global Listed Infrastructure Limited (AGLI), which floated on the ASX on 3 July 2015.

"Although the amount of income received is modest at this early stage, the management of an external client provides another source of revenue for Argo, which should grow over time as AGLI grows" he said.

Investment Portfolio

Argo's overall portfolio performance continues to be strong, matching or exceeding the S&P/ASX 200 Accumulation Index annual returns for 1, 3, 5, 10 and 15 year periods to 31 December 2015.

The number of stocks held in the portfolio increased slightly over the half-year to 104. The cash balance at 31 December was \$98 million, representing 2.0% of the Company's total assets of \$5.0 billion.

During the half-year, \$145 million was spent on long-term investment purchases, partly funded by \$59 million in disposals and takeover proceeds. The larger movements in the portfolio during the year were:

<i>Purchases</i>	<i>\$m</i>	<i>Sales</i>	<i>\$m</i>
Westpac Banking Corporation	21.4	Medibank Private	32.1
Commonwealth Bank of Australia	18.2	Affinity Education (takeover)	14.2
Santos	15.7	Milton Corporation	10.0
DUET Group	15.0		
Origin Energy	14.5		
ANZ Banking Group	8.2		
M2 Group	7.8		
CBL Corporation	7.1		
McGrath	6.7		
Primary Health Care	6.2		

Mr Beddow said that many of these investment purchases resulted from capital raisings. The four major Australian banks all raised significant amounts of new equity in 2015, primarily in response to the increasing capital requirements of regulators. In addition, the balance sheets of many energy companies have come under significant pressure due to ongoing oil price weakness, prompting capital raisings from Santos and Origin Energy.

Over the 2015 calendar year, Argo's performance relative to the index was helped by an underweight position in resource companies, although this was somewhat offset by our overweight positions in Origin Energy and Santos.

The stocks in the portfolio which contributed most positively to performance during the calendar year were AP Eagers, Macquarie Group, Ramsay Health Care, Technology One and Sydney Airport. Underweight positions in CSL and Commonwealth Bank of Australia, and not owing Qantas, negatively impacted relative performance.

Outlook

The macroeconomic themes which influenced the Australian equity market in 2015 are continuing into 2016, including a slowing Chinese economy, collapsing commodity and energy prices, modest economic growth in the US but weak elsewhere, globally low inflation and a domestic economy which is in transition and beginning to benefit from a lower Australian dollar. In addition, expectations of the first increase in US interest rates for over a decade was the other major conundrum for global markets in 2015, with the US Federal Reserve finally raising rates in December.

Mr Beddow said that although the New Year commenced with the same concerns, investors have taken a more risk-averse stance in recent weeks.

"However, in a continued low interest rate environment, we believe the overall yield available in the Australian equity market remains attractive" he said.

"In this volatile environment, Argo is likely to be patient with further meaningful investments, unless there is further market weakness or opportunities arise through the upcoming corporate reporting season."

Media contact:

Jason Beddow

Managing Director

02 8274 4702 or 0409 900 709

DIRECTORS' REPORT

The Directors present the financial report of the consolidated entity, consisting of Argo Investments Limited and its controlled entity (Argo or Company), for the half-year ended 31 December 2015.

The Company's objective is to maximise long-term returns to shareholders through a balance of capital and dividend growth from a diversified Australian investment portfolio. This is achieved through building a portfolio of long-term investments, currently 104 stocks, representing a cross section of Australia's enterprises where there is good quality management and prospects for sound earnings and dividend growth.

Review of Operations

Profit for the half-year increased by 8.9% on the previous corresponding period to \$114.2 million and earnings per share rose 7.6% to 17.0 cents per share. The growth in profit was mostly due to higher dividends and distributions from the investments in the portfolio, with the increased market volatility assisting our option writing income strategy and providing trading opportunities.

The Directors have declared a fully franked interim dividend of 15 cents per share, compared with 14 cents per share paid for the half-year ended 31 December 2014. This dividend totals \$101.6 million, compared with \$93.0 million in the previous corresponding period and will be paid on 4 March 2016.

Net tangible asset backing per Argo share was \$7.28 as at 31 December 2015, compared with \$7.52 as at 30 June 2015 and \$7.36 as at December 2014.

During the half-year, \$79.9 million of additional capital was raised for investment from the Dividend Reinvestment Plan (\$19.5 million) and the Share Purchase Plan (\$60.4 million).

The following persons were Directors during the half-year and are in office at the date of this report:

<u>Name</u>	<u>Period of Directorship</u>
Geoffrey Ian Martin AM (Chairman)	Director since 28 October 2004
Jason Beddow (Managing Director)	Director since 3 February 2014
Anne Bernadette Brennan	Director since 1 September 2011
Roger Andrew Davis	Director since 1 June 2012
Russell Allan Higgins AO	Director since 1 September 2011
Joycelyn Cheryl Morton	Director since 1 March 2012
Robert John Patterson	Director since 25 October 2011

Auditor's Independence Declaration

The Auditor's Independence Declaration, as required under Section 307C of the *Corporations Act 2001*, is set out on page 3.

Rounding of Amounts

Australian Securities and Investments Commission Class Order 98/100 dated 10 July 1998 applies to the Company and accordingly amounts have been rounded to the nearest one thousand dollars in accordance with that Class Order, unless otherwise stated.

This report is made in accordance with a resolution of the Board of Directors.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'G.I. Martin', with a stylized flourish at the end.

G.I. Martin AM
Chairman

Adelaide
1 February 2016

Auditor's Independence Declaration

As lead auditor for the review of Argo Investments Limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Argo investments Limited and the entity it controlled during the period.



M.T. Lojszczyk
Partner
PricewaterhouseCoopers

Adelaide
1 February 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the half-year ended 31 December 2015

	Note	2015 \$'000	2014 \$'000
Dividends and distributions		116,632	109,676
Interest		1,067	2,600
Other revenue		<u>1,260</u>	<u>378</u>
Total revenue		118,959	112,654
Net gains on trading investments		<u>7,294</u>	<u>2,084</u>
Income from operating activities		126,253	114,738
Administration expenses		(4,272)	(3,728)
Finance costs		<u>(95)</u>	<u>-</u>
Profit before income tax expense		121,886	111,010
Income tax expense thereon		<u>(7,670)</u>	<u>(6,162)</u>
Profit for the half-year		<u>114,216</u>	<u>104,848</u>
		2015 cents	2014 cents
Basic and diluted earnings per share	2	<u>17.0</u>	<u>15.8</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half-year ended 31 December 2015

	2015 \$'000	2014 \$'000
Profit for the half-year	<u>114,216</u>	<u>104,848</u>
Other comprehensive income:		
<i>Items that will not be reclassified to profit or loss</i>		
Revaluation of long-term investments	(172,803)	(2,771)
Provision for deferred tax benefit on revaluation of long-term investments	<u>51,655</u>	<u>215</u>
Other comprehensive income for the half-year	<u>(121,148)</u>	<u>(2,556)</u>
Total comprehensive income for the half-year	<u>(6,932)</u>	<u>102,292</u>

(To be read in conjunction with the accompanying notes)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2015

	31 December 2015 \$'000	30 June 2015 \$'000
CURRENT ASSETS		
Cash and cash equivalents	98,308	77,644
Receivables	9,806	38,551
Investments	13,346	1,660
Current tax assets	9,304	-
Total Current Assets	130,764	117,855
NON-CURRENT ASSETS		
Receivables	128	138
Investments	4,829,092	4,916,333
Plant and equipment	329	323
Total Non-Current Assets	4,829,549	4,916,794
TOTAL ASSETS	4,960,313	5,034,649
CURRENT LIABILITIES		
Payables	660	2,271
Derivative financial instruments	1,759	1,466
Current tax liabilities	-	879
Provisions	473	428
Total Current Liabilities	2,892	5,044
NON-CURRENT LIABILITIES		
Deferred tax liabilities	576,807	618,091
Provisions	137	110
Total Non-Current Liabilities	576,944	618,201
TOTAL LIABILITIES	579,836	623,245
NET ASSETS	4,380,477	4,411,404
SHAREHOLDERS' EQUITY		
Contributed equity	2,552,980	2,473,320
Reserves	1,455,055	1,596,512
Retained profits	372,442	341,572
TOTAL SHAREHOLDERS' EQUITY	4,380,477	4,411,404

(To be read in conjunction with the accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half-year ended 31 December 2015

	Contributed Equity \$'000	Reserves \$'000	Retained Profits \$'000	Total \$'000
Balance at 1 July, 2015	<u>2,473,320</u>	<u>1,596,512</u>	<u>341,572</u>	<u>4,411,404</u>
Profit for the half-year	-	-	114,216	114,216
Other comprehensive income	<u>-</u>	<u>(121,148)</u>	<u>-</u>	<u>(121,148)</u>
Total comprehensive income for the half-year	<u>-</u>	<u>(121,148)</u>	<u>114,216</u>	<u>(6,932)</u>
Transactions with shareholders:				
Dividend Reinvestment Plan	19,548	-	-	19,548
Share Purchase Plan	60,355	-	-	60,355
Cost of share issues net of tax	(243)	-	-	(243)
Executive performance rights reserve	-	(306)	-	(306)
Dividend paid	<u>-</u>	<u>(20,003)</u>	<u>(83,346)</u>	<u>(103,349)</u>
Total transactions with shareholders	<u>79,660</u>	<u>(20,309)</u>	<u>(83,346)</u>	<u>(23,995)</u>
Balance at 31 December, 2015	<u><u>2,552,980</u></u>	<u><u>1,455,055</u></u>	<u><u>372,442</u></u>	<u><u>4,380,477</u></u>

For the half-year ended 31 December, 2014

Balance at 1 July, 2014	<u>2,437,259</u>	<u>1,548,931</u>	<u>302,519</u>	<u>4,288,709</u>
Profit for the half-year	-	-	104,848	104,848
Other comprehensive income	<u>-</u>	<u>(2,556)</u>	<u>-</u>	<u>(2,556)</u>
Total comprehensive income for the half-year	<u>-</u>	<u>(2,556)</u>	<u>104,848</u>	<u>102,292</u>
Transactions with shareholders:				
Dividend Reinvestment Plan	18,362	-	-	18,362
Cost of shares issued net of tax	(20)	-	-	(20)
Executive performance rights reserve	-	97	-	97
Dividend paid	<u>-</u>	<u>-</u>	<u>(96,016)</u>	<u>(96,016)</u>
Total transactions with shareholders	<u>18,342</u>	<u>97</u>	<u>(96,016)</u>	<u>(77,577)</u>
Balance at 31 December, 2014	<u><u>2,455,601</u></u>	<u><u>1,546,472</u></u>	<u><u>311,351</u></u>	<u><u>4,313,424</u></u>

(To be read in conjunction with the accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS
for the half-year ended 31 December 2015

	2015 \$'000	2014 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Dividends and distributions received	123,496	135,598
Interest received	987	3,401
Other receipts	1,832	378
Proceeds from trading investments	24,913	10,627
Payments for trading investments	(29,011)	(8,976)
Other payments	(5,592)	(4,464)
Income tax paid	<u>(7,378)</u>	<u>(18,463)</u>
Net operating cash inflows	<u>109,247</u>	<u>118,101</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of long-term investments	59,037	71,719
Payments for long-term investments	(123,807)	(220,863)
Proceeds from other financial cash assets	-	70,000
Executive share scheme repayments	10	380
Payments for fixed assets	<u>(30)</u>	<u>(15)</u>
Net investing cash outflows	<u>(64,790)</u>	<u>(78,779)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Share Purchase Plan	60,355	-
Cost of share issues	(347)	(29)
Dividend paid - net of Dividend Reinvestment Plan	<u>(83,801)</u>	<u>(77,654)</u>
Net financing cash outflows	<u>(23,793)</u>	<u>(77,683)</u>
Net increase/(decrease) in cash held	20,664	(38,361)
Cash at the beginning of the half-year	<u>77,644</u>	<u>126,893</u>
Cash at the end of the half-year	<u>98,308</u>	<u>88,532</u>

(To be read in conjunction with the accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS
for the half-year ended 31 December 2015

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

The general purpose financial report for the half-year ended 31 December 2015 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this half-yearly report is to be read in conjunction with the Annual Report for the year ended 30 June 2015 and any public announcements made by Argo Investments Limited (Company) during the half-year, in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

2. EARNINGS PER SHARE

	2015 number '000	2014 number '000
Weighted average number of ordinary shares on issue used in the calculation of earnings per share	671,991	663,704
	\$'000	\$'000
Profit for the half-year	114,216	104,848
	cents	cents
Basic and diluted earnings per share	<u>17.0</u>	<u>15.8</u>

3. DIVIDENDS

	2015 \$'000	2014 \$'000
Dividend paid during the half-year:		
Final dividend for the year ended 30 June 2015 of 15.5 cents fully franked at 30% tax rate paid 2 September 2015 (2014: 14.5 cents fully franked at 30% tax rate)	<u>103,349</u>	<u>96,016</u>
Since the end of the half-year, the Directors have declared the following dividend which has not been recognised as a liability at the end of the half-year:		
Interim dividend for the year ending 30 June 2016 of 15 cents fully franked at 30% tax rate payable 4 March 2016 (previous corresponding period: 14 cents fully franked at 30% tax rate)	<u>101,557</u>	<u>93,035</u>

4. CONTRIBUTED EQUITY

Ordinary shares rank pari passu, have no par value and entitle the holder to participate in dividends and the proceeds on winding up of the Company in the proportion to the number of the shares held. The Company does not have a limited amount of authorised capital.

	2015	2014	2015	2014
	No. of shares	No. of shares	\$'000	\$'000
Issued and fully paid ordinary shares:				
Opening balance	666,769,679	662,179,486	2,473,320	2,437,259
Dividend reinvestment plan ^(a)	2,490,187	2,357,163	19,548	18,362
Share purchase plan ^(b)	7,787,690	-	60,355	-
Cost of share issues net of tax	-	-	(243)	(20)
Closing balance	<u>677,047,556</u>	<u>664,536,649</u>	<u>2,552,980</u>	<u>2,455,601</u>

(a) On 2 September 2015, 2,490,187 shares were allotted at \$7.85 per share pursuant to the Dividend Reinvestment Plan in operation for the final dividend paid for the year ended 30 June 2015.

(b) On 7 October 2015, 7,787,690 shares were allotted at \$7.75 per share pursuant to the Share Purchase Plan offered to eligible shareholders.

5. FINANCIAL REPORTING BY SEGMENTS

The Company operates in the investment industry predominately within Australia.

The Company is managed as a whole and is considered to have a single operating segment. There is no further division of the Company or internal segment reporting used by the Directors when making strategic, investment or resource allocation decisions.

The Company is domiciled in Australia and derives its revenue from the investment portfolio, through the receipt of dividends, distributions, interest and other income. The portfolio is highly diversified, with no single investment accounting for more than 10% of revenue.

There has been no change to the operating segments during the half-year.

DIRECTORS' DECLARATION

In the opinion of the Directors of Argo Investments Limited (Company):

- (a) the consolidated financial statements and notes set out on pages 4 to 9 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors



G.I. Martin AM
Chairman

Adelaide
1 February 2016

Independent auditor's review report to the members of Argo Investments Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Argo Investments Limited (Company), which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Argo Investments Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Argo Investments Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

**Independent auditor's review report to the members of Argo Investments Limited
(continued)**

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Argo Investments Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



PricewaterhouseCoopers



M.T. Lojszczyk
Partner

Adelaide
1 February 2016